



## Cronos (TSX:CRON) Shares Tank, But is it Now a Buy?

### Description

After some good news finally coming out of the cannabis industry, it looked like marijuana producer **Cronos Group Inc.** ([TSX:CRON](#))([NASDAQ:CRON](#)) would be the latest to hitch a ride on that train.

In fact, the stock did see some significant improvement when it released its second quarterly report. Net revenue tripled from the same time last year to \$10.2 million. Even more impressive, the company joined the limited ranks of marijuana producers finally posting a profit, with Cronos reporting \$251 million in profit for the quarter.

But this is where things get tricky, as the devil is in the details. While a [profit is impressive](#), it looks like it could be a one-off. Cronos received a \$263.9 million gain from a revaluing of its warrants. It looks like investors may have caught on, because the stock is still down despite the good news. The stock jumped about 8% after the report came out, reaching as high as \$19.18 per share before dropping back down by almost 10% to about \$17.50, where it is now.

So let's look at whether Cronos has what it takes to deserve your money.

### Asset strategy

The main fuel behind Cronos' growth right now is through acquisitions. The company has been snapping up companies left, right and centre to further its growth initiative, providing the ability to expand into a number of spaces related to cannabis. Some of its recent acquisitions include Lord Jones, a cannabidiol (CBD) beauty brand that's already popular in the United States, giving the company access to the U.S. market.

Another recent acquisition is through Ginkgo Bioworks last year, a company that focuses on biosynthesis, an area that Cronos is extremely interested in. Biosynthesis could provide an incredibly cheap way of cultivating cannabis. While the initial price tag will likely be high, biosynthesis allows a company like Cronos to create biologically identical CBD compared to the marijuana plant. The process can be done on a large scale, so once it's up and running this could be a huge win for Cronos.

## Heading South

The acquisition of Lord Jones was a great first step, but Cronos had an even better move come out August 2 when it announced it would be acquiring Redwood Holding Group. The company manufactures and markets hemp-derived CBD, all in the United States. This acquisition should significantly add to the company's revenue stream, especially with its biosynthesis project in the works.

But while the company seems rather focused on CBD, it looks like research into cannabis as a whole might be left to the wayside. This is where the money lies, especially in the medical space. While its projects should increase its revenue south of the border, it might be harder for Cronos to expand into other areas besides CBD, especially since so many of its peers are already setting up the process to do so. Basically, the [derivatives market](#) likely won't be enough to put this company on top.

## Production lag

The main problem I have with Cronos is that the company is simply far behind its peers when it comes to production. Even though the company has increased its kilograms sold, it's still substantially behind. The company recently reported 1,584 kilograms sold in its recent report, compared to heavyweight **Aurora Cannabis** that predicts it will sell on the top-end of between 25,000 and 30,000 kilograms.

If we continue the comparison, Aurora has a market cap of \$8.23 billion compared to Cronos' \$5.89 billion. Those numbers are similar enough that Cronos should be making much heavier moves than it is. Aurora is in the most countries of its peers at 24, and is set to produce the most amount of pot come June 2020. Cronos, meanwhile, has just entered the U.S. Instead, the company is making expensive acquisitions that may not pay off compared to simple production growth.

## Foolish takeaway

I agree with analysts that this stock is at best a hold, and should perform neutral amongst its peers in at least the near term. Some of that money coming in from its partnerships needs to be used to strengthen investor confidence. Until that happens, any profits and jumps in revenue are likely only temporary.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)

### PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Cannabis Stocks
2. Investing

**Date**

2025/08/15

**Date Created**

2019/08/16

**Author**

alegatewolfe

default watermark

default watermark